Cost Accounting Bold Ideas

1. Strategically design and implement a statewide activity based costing and budgeting model.
2. Eliminate restrictions on funds to allow for fully loaded costs and programs, including allocation of overhead and central service agencies in alignment with POG
3. Adopt a single statewide allocation plan designed to maximize revenue and promote strategic decision-making.

Challenges which may impede implementing the bold ideas

1. Limits on indirect cost in RCW may prevent Activity Based Costing
2. Setting up standard statewide activities for Activity Based Costing could be challenging and may have a substantial impact on agencies

Enterprise Benefits identified in Could-Be Focus Group

1. Standardized cost elements for all indirect and overhead costs
2. Provides visibility into differences between budget and cost
3. Increased information on what things cost across agencies
4. Ability to share best practices across agencies
5. Improved ability to respond to constituents
6. Increased credibility with legislature
7. Improved access to statewide and interagency information to answer specific questions
8. Ability to support sourcing decisions for competitive contracting
9. Elimination of duplicative activities across agencies
10. Enterprise tools to support informational requests (Challenge: May require more coding work causing an impact on small agencies)
11. Tool can support POG with performance information

Cost Accounting Process Scope

Cost accounting identifies activities, products and services for which costs need to be measured; establishes a formal or informal costing methodology and/or plan; and records, accumulates and distributes direct, indirect and overhead costs to those cost objectives according to the established methodology.

Cost Accounting Definitions

***Cost* –** An amount determined on a cash, accrual, or other basis acceptable to the reporting entity.

Cost objective – An activity for which cost data are needed and for which costs are incurred.

Direct costs - Costs that can be identified specifically with a particular final cost objective.

Indirect costs – Costs assignable to more than one activity and are not practically direct-charged to these activities.

Overhead costs – A subset of indirect costs that supports the entire organization (not typically affected by fluctuations in activity levels).

Cost pool – The accumulation of a group of indirect costs that will later be allocated to cost centers.

Cost center – The accumulation of direct and allocated indirect costs into cost objectives.

Note - These definitions were modified from the definitions found in OMB Circular A – 87 Revised 5/10/04

Business Objectives

Universal objective
Balance added functionality and information with increased workload to determine and fund implementation consequences.

Demonstrate how monies are spent (compliance)

1. Determine the full cost of government activities, products and services across agencies according to applicable rules and regulations.
2. Comply with legal and grant/contract provisions for the use of money
3. Establish prices or fees for activities, products and services based on costs, legal constraints and/or other factors as appropriate.
4. Provide flexibility to view and control original and allocated costs by function, activity, and organization.
5. Monitor plan versus actual and adjust as necessary
6. Support equitable allocation of costs

Compare costs to outcomes (management reporting / effectiveness)

7. Align resources to core business activities
8. Provide flexibility to respond to inquires on current and emerging strategic priorities
9. Enable decisions that will optimize resources and/or outcomes
10. Determine whether activities, products, and services are cost effective.
11. Provide data that influences people's behavior and supports good decision making.
12. Help managers allocate resources among competing priorities and distinguish between successful and unsuccessful strategies.

Opportunities confirmed in the Could-Be meeting

1. Standardize indirect and direct costs for projects (Budget instructions, accounting policy)
2. Publish standard cost allocation definitions
3. Establish shared structure/standards for determining interagency rates

4. Provide true cost of goods sold
5. Provide full cost of government services across agencies
6. Agency and statewide ability to summarize and drill down through various levels of cost details
7. Provide real-time total costs

8. Link cost objectives to budget requirements
9. Isolate cost of non-economic policy (since often government has to do something no matter its economic viability or efficiency)
10. Allow “what if” scenarios
11. Provide visibility to the full costs in budgeting and rate setting processes.

12. Relate total cost of a program to its budget, grant, funding, etc.
13. Provide the ability to compare pricing to external sources
14. Allow comparison of cost trends across time, organization, etc.
15. Support “make versus buy” type decisions

Current Business Challenges

Confirmed in the Could-be modeling session:

1. Enterprise tools are not available to help agencies comply with state allotment instruction requirements to separate administrative costs between indirect costs and overhead costs and assign the indirect portion to activities through cost allocation.
2. Reconciliation between agency fund split, program structure and cost allocation structure is time consuming and difficult.
3. Reporting for budgetary and operational management
4. Multiple and circular allocation steps (for example, A provides services to B and C and B also provides services to C)

From the *Roadmap* Common Business Problems and Opportunities survey:

5. Incomplete, dubious data impedes the ability of state policy-makers and managers to measure performance, evaluate competitive contracting proposals, manage agency business operations effectively, price government services, make life-cycle investment decisions, assign costs to level of service options, and support a "priorities of government" approach to budgeting.
6. Agencies lack the flexible cost analysis tools to provide timely and reliable high-level cost data and supporting details to inform resource allocation decisions.
7. Better cost accounting capability is required to support Priorities of Government initiatives and determine the costs of government services.
8. Current cost allocation tools are designed to address specific business issues; agencies need flexible analytic tools to adapt to emerging policy and operating business needs.
9. Fiscal notes on the impact of proposed legislation are based on inconsistent cost data from agency to agency and vary widely in format and quality.
10. Processes used to collect the workload statistics to support cost analyses are labor-intensive, after the fact, not integrated, and not available when needed to support decisions.
11. The current plan for HRMS labor distribution may not provide all the data needed to meet cost accounting requirements for all agencies.
12. Agencies need the capability to allocate administrative costs to cost objectives to accurately determine costs and maximize revenues, using allocation methods that are appropriate for the business situation.
13. Agencies require the flexible capability to define account code fields for the purpose of collecting agency-specific details that can be used as cost drivers in cost allocation analyses; for instance, an agency may need to track labor hours and payable costs to case numbers, projects, or specific capital assets or facilities.
14. Agencies need the ability to model allocated costs for budgeting, cash flow, and rate setting projections.
15. To comply with RCW 43.88.0909(3),(4)&(5), agencies need to assess performance against their major programs as established in the budget. Each agency's budget proposal must be directly linked to the agency's stated mission and program goals and objectives. Current systems do not allow for this linking and assessment.
16. Use of agency-unique cost allocation tools rather than an integrated central system requires significant data entry and reconciliation effort.
17. Many agencies currently allocate costs through spreadsheets, which wastes resources creating, reconciling, and correcting errors.

18. Many managers make decisions on a daily basis that have significant cost implications but are not routinely supported by cost analyses; this process is imprecise at best and totally inaccurate at worst.
19. Enabling legislation for the State Auditor's Office (RCWs 43.09 and 42.40) mandates accurate allocation of costs between local government audits, state government audits and whistleblower investigations. Also, RCW 43.88.0909(3),(4)&(5) requires agencies to assess performance against their major programs as established in the budget. Current systems do not allow for these allocations, linking and assessment.
20. Some agencies are moving rapidly toward accountability by cost center or business activity and need the tools available to achieve this goal.